

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 1, 2016 / 2017 SESSION

### DEC5028 – MACROECONOMICS

(All sections / Groups)

10 October 2016

2.30 – 4.30 PM

(2 Hours)

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#### INSTRUCTIONS TO STUDENT

1. This question paper consists of 15 pages with 3 sections.
2. Answer **ALL** questions for sections A, B and C.
3. Answers for section A should be shaded on the OMR sheet provided.
4. For sections B and C, please write your answers in the answer booklet provided.

**SECTION A: MULTIPLE CHOICE QUESTIONS**

**Each question consists of 1 mark. Answers for this section should be shaded on the OMR sheet provided.**

1. When households allocate 20% of RM100 income for saving, it means that \_\_\_\_\_.
- A.  $MPC = 0.2$
  - B.  $C = a + 0.2Y$
  - C.  $MPS = 0.2$
  - D.  $Y = C - 20$
2. When there is no government intervention in the economy, all incomes are assumed to be \_\_\_\_\_.
- A. consume only
  - B. save only
  - C. consume and save
  - D. consume, save and pay tax

Autonomous consumption is the level of consumption when income is zero.

3. The 'income' in the statement above is define as \_\_\_\_\_.
- A. income received by all factors of production
  - B. income received by the government only
  - C. income generated from employment only
  - D. income earn by the proprietors in goods and service market
4. An economy produced 10000 unit of computers at a time, but the aggregate expenditure only calls for 7000 unit of computers. Thus the country experienced \_\_\_\_\_.
- A. 3000 units decreased in inventory change
  - B. 3000 units increased in inventory change
  - C. 3000 units of equilibrium level
  - D. 3000 units of shortage in inventory

**Continued...**

5. A firm should \_\_\_\_\_ its production, if an economy faced \_\_\_\_\_ in inventory change.
- A. increase; zero
  - B. increase; an increase
  - C. decrease; a decrease
  - D. decrease; an increase
6. An unplanned rise in inventory change occurs when \_\_\_\_\_.
- A. the saving leakage is less than the investment injected in the economy
  - B. the saving leakage is equal with the investment injected in the economy
  - C. the saving leakage is more than the investment injected in the economy
  - D. the saving leakage is equal to zero
7. Find the equilibrium level of output (income) when  $C = 50 + 0.5Y$  and investment is held constant at RM150 million.
- A. RM400 million
  - B. RM125 million
  - C. RM130 million
  - D. RM40 million

*Refer to question 7 above to answer question 8 and question 9.*

8. If investment increased by RM50 million, find the new equation for equilibrium level of output (income).
- A.  $Y = 100 + 0.5Y$
  - B.  $Y = 50 + 0.5Y$
  - C.  $Y = 250 + 0.5Y$
  - D.  $Y = 200 + 0.5Y$
9. Given that autonomous consumption increased to RM100 million, the new consumption function will be \_\_\_\_\_.
- A.  $C = 50 + 0.5Y$
  - B.  $C = 150 + 0.5Y$
  - C.  $C = 200 + 0.5Y$
  - D.  $C = 100 + 0.5Y$

**Continued...**

10. Saving leakage can be injected back into the economy through \_\_\_\_\_.
- A. financial markets
  - B. underground markets
  - C. black markets
  - D. wet markets
11. When the household attempt to increase their saving but resulted to a decrease in the aggregate output (income), this scenario is called \_\_\_\_\_.
- A. The Paradox of Theft
  - B. The Paradox of Thrift
  - C. The Paradoxical Commandment
  - D. The Paradox of Disclosure
12. A closed economy is define as \_\_\_\_\_.
- I. no government
  - II. no investment by firms
  - III. no import and export
  - IV. no savings made by household
- A. I and II only.
  - B. I and III only.
  - C. I and IV only.
  - D. II and III only.
13. Which of the followings are the effective instruments that a government can use to control the economy?
- I. Policies concerning government purchase of goods and services.
  - II. Policies concerning publication and plagiarism.
  - III. Policies concerning taxes.
  - IV. Policies concerning transfer payments.
- A. I, II and III only.
  - B. I, II, and IV only.
  - C. I, III and IV only.
  - D. II, III and IV only.

**Continued...**

14. Country Z has decreased its net taxes in order to cope with its current economic slowdown. This act leads to \_\_\_\_\_.
- A. no change in aggregate demand
  - B. an increase in aggregate demand
  - C. a decrease in aggregate demand
  - D. a decrease in aggregate supply
15. In an open economy, the circular flow of income consists of \_\_\_\_\_.
- I. firms
  - II. households
  - III. the government
  - IV. the central bank
- A. I, II and III only.
  - B. I, II and IV only.
  - C. I, III and IV only.
  - D. II, III and IV only.
16. Fiscal policy affects the goods market through \_\_\_\_\_.
- A. changes in money supply
  - B. changes in taxes and money supply
  - C. changes in government spending and money supply
  - D. changes in taxes and government spending
17. Which of the following is an example of an expansionary fiscal policy?
- A. The central bank selling treasury bonds in the open market.
  - B. The federal government increasing the marginal tax rate on incomes above RM40,000.
  - C. The federal government increasing the amount of money spent on improving public transportation.
  - D. The federal government reducing pollution standards to allow firms to produce more output.
18. What is the objective for a government to practices a contractionary fiscal policy?
- A. Reduce unemployment.
  - B. Increase growth in output.
  - C. Reduce inflation.
  - D. Increase stagflation.

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Continued...

19. In 2014, the city of Melaka collected RM800,000 in taxes and spent RM200,000. In 2014, the city of Melaka had a \_\_\_\_\_.
- budget surplus of RM200,000
  - budget surplus of RM600,000
  - budget deficit of RM200,000
  - budget surplus of RM1,000,000
20. Planned aggregate expenditure increases when \_\_\_\_\_ in the aggregate output (income) model.
- the government sector is included
  - the export is excluded
  - investment is excluded
  - consumption is excluded
21. The aggregate consumption function is  $C = 100 + 0.5Y_d$ . If income is RM2,000 and net taxes are RM400, consumption equals RM \_\_\_\_\_.
- 900
  - 1,300
  - 3,300
  - 4,900

**Refer to the information provided in Table 1 below to answer question 22 until question 24.**

**All numbers are in RM billion**

Output (Income)	Consumption Spending	Net Taxes	Investment Spending	Government Spending
600	500	50	200	200
1,200	1,000	50	200	200
1,800	1,500	50	200	200
2,400	2,000	50	200	200
3,000	2,500	50	200	200

**Table 1**

22. Refer to Table 1. At an output level of RM1,200 billion, the level of aggregate expenditure is \_\_\_\_\_.
- RM1,100 billion
  - RM1,250 billion
  - RM1,400 billion
  - RM1,450 billion

**Continued...**

23. At an output level of RM1,200 billion, there is an unplanned inventory change of \_\_\_\_\_.
- A. positive RM100 billion
  - B. zero
  - C. negative RM200 billion
  - D. positive RM200 billion
24. The equilibrium level of output is \_\_\_\_\_ billion.
- A. RM3,000
  - B. RM2,400
  - C. RM1,800
  - D. RM1,200
25. Brad washes cars and Angelina babysits. Angelina agrees to babysit for Brad's kids if he wash her minivan. This is an example of \_\_\_\_\_.
- A. legal tender
  - B. barter
  - C. commodity money
  - D. fiat money
26. Kylie wants to trade scuba lessons for surfing lessons. Kendal wants to trade surfing lessons for scuba lessons. Kylie and Kendal have \_\_\_\_\_.
- A. a double incidence of demand
  - B. a double coincidence of wants
  - C. the basis for a double fiat exchange
  - D. the basis for a liquidity exchange
27. The function for a barter system diminished when money is used as a \_\_\_\_\_.
- A. medium of exchange
  - B. store of value
  - C. unit of account
  - D. measure of value
28. Abercrombie and Fitch is a clothing retailer that has 250 different products in its inventory worth USD\$600,000. This is an example of using money as a \_\_\_\_\_.
- A. unit of account
  - B. medium of exchange
  - C. standard of deferred payment
  - D. store of value

**Continued...**

29. When Malaysia experiences a period of high inflation and Malaysians lose confidence in their Ringgit Malaysia as a store of value, which of the following would be **FALSE** statement?
- A. The demand for Ringgit Malaysia would decrease.
  - B. The buying power of the Ringgit Malaysia would decrease.
  - C. The value of foreign currencies would depreciate relative to the Ringgit Malaysia.
  - D. The value of Ringgit Malaysia would depreciate relative to the other countries.
30. Sarah transfers RM450 from her saving account to her checking account. This transaction will \_\_\_\_\_.
- A. not change M1 and decrease M2
  - B. increase M1 and not change M2
  - C. increase both M1 and M2
  - D. decrease both M1 and M2
31. For a commercial bank, loans are a(n) \_\_\_\_\_ and deposits are a(n) \_\_\_\_\_.
- A. asset; liability
  - B. liability; asset
  - C. retained earning; dividend
  - D. dividend; retained earning
32. Bank of Mayland has RM500 million in deposits. Bank of Mayland is meeting its reserve requirement and has no excess reserves. It has RM75 million in reserves. Bank of Mayland's required reserve ratio is \_\_\_\_\_.
- A. 15%
  - B. 25.5%
  - C. 45%
  - D. 47.2%
33. When Thailand's exports of goods are \_\_\_\_\_ its imports of goods in a given period, it has a trade surplus.
- A. equal to
  - B. less than
  - C. greater than
  - D. unrelated to

**Continued...**



*Refer to the information provided in Table 2 below to answer question 34 until question 36.*

ZIMB Bank			
Assets		Liabilities	
Reserves	\$1.2 million	\$6 million	Deposits
Loans	\$4.8 million		
Total	\$6 million	\$6 million	Total

**Table 2**

34. The required reserve ratio is currently 20%. ZIMB Bank could make additional loans of \$750,000, if the required reserve ratio were reduced to \_\_\_\_\_.
- A. 12.5%  
B. 10%  
C. 7.5%  
D. 2.5%
35. If the required reserve ratio were changed to 10%, ZIMB Bank new required reserves would be \_\_\_\_\_.
- A. \$150,000  
B. \$300,000  
C. \$600,000  
D. \$900,000
36. If the required reserve ratio changed to 12.5%, the money multiplier is \_\_\_\_\_.
- A. 2.5  
B. 6  
C. 7.5  
D. 8
37. Which of the following serves as the central bank of Malaysia?
- A. The Statistical Department Malaysia.  
B. Bank Negara Malaysia.  
C. The Federal Deposit Insurance Corporation.  
D. The Ministry of Finance.

**Continued...**

*Refer to the information provided in Table 3 below to answer question 38 until question 40.*

	New Deposit	Required Reserve	Loans
ABC Bank	RM100,000	RM10,000	RM90,000
DEF Bank	RM90,000	RM9,000	RM81,000
GHI Bank	RM81,000	RM8,100	RM72,900
JKL Bank	RM72,900	RM7,290	RM65,610

**Table 3**

38. Table 3 shows the new deposits, required reserves, and loans of 4 banks as a result of a RM100,000 initial deposit in ABC Bank. Assume all banks are loaned up. What is the required reserve ratio?
- A. 4%.  
B. 5%.  
C. 8%.  
D. 10%.
39. How much money will be created (money multiplier) based on the initial RM100,000 deposit?
- A. RM1 million.  
B. RM2 million.  
C. RM16.67 million.  
D. RM50 million.
40. If the required reserve ratio were changed to 20%, total loans of DEF Bank will change to \_\_\_\_\_.
- A. RM64,000  
B. RM72,000  
C. RM74,250  
D. RM80,000
41. Any transaction that causes foreign exchange to enter a country is a \_\_\_\_\_.
- A. credit item in that country's balance of trade  
B. debit item in that country's balance of payments  
C. credit item in that country's balance of payments  
D. debit item in that country's balance of trade

**Continued...**

42. Which of the following is an item in Mexico capital account?
- A. Net investment income.
  - B. Exports of services.
  - C. The change in private Mexico assets abroad.
  - D. Net transfer payments.
43. If a Japanese investor buys shares of Proton Holding Company, the transaction \_\_\_\_\_.
- A. is registered as a credit in the capital account, and it increases foreign private assets in Malaysia
  - B. is registered as a debit in the current account, and it decreases private Malaysian assets abroad
  - C. is registered as a credit in the capital account, and it decreases foreign private assets in Malaysia
  - D. is registered as a debit in the capital account, and it increases private Malaysian assets abroad
44. In Malaysia, which of the following is directly determined by its aggregate income?
- I. Consumption.
  - II. Income tax revenue.
  - III. Saving.
  - IV. Money supply.
- A. I, II, III and IV.
  - B. I, II and III only.
  - C. II, III and IV only.
  - D. III and IV only.
45. If planned aggregate expenditures are RM150 billion, consumption is RM50 billion, investment is RM30 billion, government spending is RM40 billion, there is a \_\_\_\_\_.
- A. trade surplus of RM270 billion
  - B. trade surplus of RM30 billion
  - C. trade deficit of RM120 billion
  - D. trade balance

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46. The level of a country's exports depends \_\_\_\_\_ the level of income in other countries.
- A. negatively on
  - B. adversely on
  - C. inversely with
  - D. directly on
47. If exchange rates between Italy and Malaysia are fixed, then a decrease in Italy's export causes \_\_\_\_\_.
- A. Ringgit Malaysia supply to fall
  - B. Ringgit Malaysia supply to rise
  - C. Italy's Euro demand curve shift to the right
  - D. Italy's Euro demand to rise
48. If income decreases in Malaysia. This will cause a(n) \_\_\_\_\_.
- A. increase in the supply of dollar
  - B. decrease in the supply of dollar
  - C. increase in the demand for dollar
  - D. decrease in the demand for dollar
49. Pakistan imports over 80% of its consumption of wheat. If the price of wheat decreases, Pakistani Rupee's \_\_\_\_\_.
- A. demand curve shifts to the left
  - B. supply curve shift to the right
  - C. supply curve shifts to the left
  - D. planned expenditures decrease
50. If Malaysia and Israel don't trade with each other. An increase in the price level in Israel \_\_\_\_\_.
- A. increases the price level in Malaysia
  - B. decreases the price level in Malaysia
  - C. increases the price level in the Malaysia, then decreases it
  - D. does not affect the price level in Malaysia

[TOTAL 50 MARKS]

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**SECTION B: FILL IN THE BLANKS QUESTIONS**

**Each question consists of 1 mark. Please refer to the table below. Fill in the blanks with the most appropriate answer. Answers for this section should be written in the answer booklet provided.**

Export	Foreign exchange market	Education	Technology	Catch up
Capital	Import	Foreign direct investment	Purchasing power parity	Exchange rate

- Improvement in basic \_\_\_\_\_ is one of the characteristics of a country's economic development.
- The lack of \_\_\_\_\_ in developing nations causes labor productivity to remain low.
- The theory stating that the growth rates of less developed countries will exceed the growth rates of developed countries that allows the less developed countries to \_\_\_\_\_.
- As Malaysia opens new \_\_\_\_\_ opportunity to the country, it is an indication that the country is trying to increase the country's productivity.
- The discovery and the application of new \_\_\_\_\_ has contributed immensely to increasing labor productivity of a country.
- Declining economic activity abroad will decrease Malaysia \_\_\_\_\_.
- The \_\_\_\_\_ is where a person can exchange the currency of one country for the currency of another.
- The quantity of Mexican Peso that traders plan to buy during a given period depends on the \_\_\_\_\_.
- The larger the value of Thailand's \_\_\_\_\_, the larger is the quantity of Ringgit Malaysia supplied in the foreign exchange market.
- \_\_\_\_\_ theory is a technique used to determine the relative value of different currencies between countries.

**[TOTAL 10 MARKS]**

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**SECTION C: STRUCTURED QUESTIONS**

**Answers for this section should be written in the answer booklet provided.**

**QUESTION 1****Malaysia in the Global Economy**

Malaysia's production profile in 1955 showed manufacturing sector holding an 8 percent share of GDP, agriculture sector a 40 percent share, and mining sector, construction sector, and other services sector a 52 percent share. As global demand for Malaysia's commodities began to flag in the aftermath of the Korean War boom, a 1955 World Bank mission to the country recommended "an import substitution industrialization (ISI) strategy through tariff protection; encouraging local industrial entrepreneurship, attracting foreign capital, offering new tax and other incentives, the provision of industrial estates, and infrastructural development." Foreign Direct Investment (FDI) during the 1950s and 1960s was mainly directed at natural resource extraction as outside investors were attracted to Malaysia's abundant rubber and tin endowments (Charette, 2006). Since FDI is one of the GDP component under Investment, this measure keeps its increasing and GDP will also increase parallel to the change of FDI value. As GDP keeps on increasing, the economy will move towards recovery period. The government can encourage FDI by reducing the tariff and increasing incentives

- a) Based on the above case study, list **THREE (3)** sectors that contributed to Malaysia's GDP during 1955.  
(3 marks)
- b) Explain what did the World Bank recommended for Malaysia about the strategy to rebound its economic recession after the Korean War.  
(2 marks)
- c) Explain how Foreign Direct Investment (FDI) can contribute to improve Malaysia economy surviving recession period.  
(5 marks)

**Continued...**

**QUESTION 2**

In Malaysia, labour force can be divided into two which is local and foreign workers. Foreign workers refer to foreigners who are working in Malaysia in any sector or industry. It is undeniable that the foreigners working in Malaysia have contributed to the economic growth of the country, in particular by alleviating labor shortages in selected sectors of the economy but they still bring a lot of disadvantages to the country in terms of employment opportunity for local workers and reducing the equilibrium wages in labour market (Peter Yacob, Oct 2012). Beginning 1982, the total labour force recorded by the Department of Statistics was about 354,300. The unemployment rate was at 3.0 percent. In 1992, the total of labour force in Sabah was 524,300 which increased about 48 per cent in 10 years. Increasing in the total labour force in Sabah was also due to the increase in foreign workers (Borhan Sareya, 2015).

- a) In your opinion, do you think the increasing number of foreign workers is good for Malaysia economy? Explain.  
(2 marks)
- b) Based on your answer in question a), explain **TWO (2)** disadvantages/advantages for increasing number of foreign workers to Malaysia economy.  
(4 marks)
- c) If the unemployment rate was at 3.0 percent, calculate the numbers of unemployed in Sabah during 1982.  
(4 marks)

**Continued...**

**QUESTION 3**

- a) Explain the effect on Gross Domestic Product (GDP) from the following activities.
- i. Household consumption increased by RM10 million for expenditure in luxury goods such as handbags and shoes.
  - ii. The government has allocates RM50 million to improve public transportation to cope with congestion issues in Kuala Lumpur.
  - iii. Gross Private Domestic Investment has recorded some reduction by RM15 million due to price increase in residential properties.
  - iv. Due to global economic slowdown, net export has recorded a negative value by RM100 million during the year.
  - v. Bakeries across the countries bought RM50,000 worth of apples for apple pies production.
  - vi. Majlis Bandaraya Melaka Bersejarah (MBMB) has decided to reduce its spending in response to the federal government effort to reduce inflation.

(6 marks)

- b) States **TWO (2)** differences between GDP Deflator and Consumer Price Index (CPI).

(4 marks)

**QUESTION 4**

- a) States **THREE (3)** reasons why potential GDP change.

(6 marks)

- b) Explain **TWO (2)** factors that influence buying plans.

(4 marks)

**[TOTAL 40 MARKS]****End of Page.**